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Thailand

Grain and Feed Update

Crop Update: Rice Production on Track but Export in Doubt

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Report Highlights:

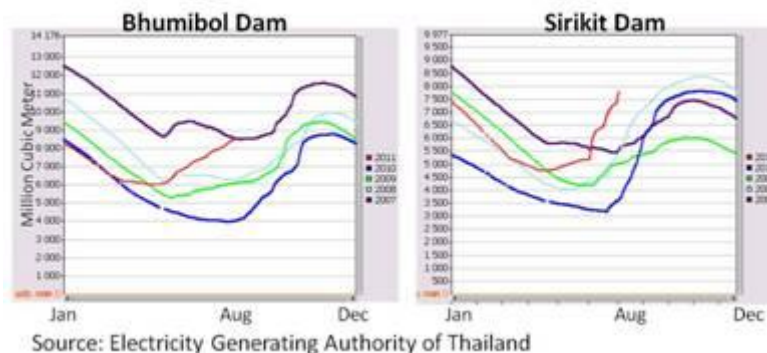
TH1101 MY2010/11 and MY2011/12 rice production is well on track due to favorable weather conditions. Rice exports will likely reach 10.0 million tons in 2011 despite an anticipated domestic policy shift to the Paddy Pledging Program. However, this policy shift will adversely affect the Thai rice export outlook in 2012.

Post:
Bangkok

1. MY2010/11 off-season crops and MY2011/12 main crops on track

MY2010/11 rice production is estimated at 20.3 million tons, unchanged from the previous forecast (TH1035, Grain and Feed Annual, March 2011). Off-season rice production is well on track at 5-6 million tons of rice, up 3.7 percent from the previous year. Drought damage is marginal at less than 1.0 percent of the total planted area of 2.0 million hectares due to sustained recoveries in key reservoirs (Figure 1).

Figure 1: Reservoir Levels in Major Dams



The MY2011/12 main-crop paddy is approximately 80-90 percent planted, well above the previous year, due to above-normal precipitation from the monsoon season that began in May 2011 in the major growing areas of the North and Northeast (Figure 2).

The Thai Meteorological Department expects that precipitation will be slightly above normal during the crucial reproductive stage in August – September, vital for a good crop-yield. In addition, the June climate forecast from the International Research Institute for Climate and Society states that the probability for a La Nina and/or El Nino event at the beginning of next year has decreased to less than 10 percent from a 30 percent probability in its February 2011 forecast. Also, the time series of the number of tropical storms in Thailand (Figure 3) imply that tropical cyclones or typhoons in the South China Sea will be downgraded to tropical depressions. These depressions will provide the necessary rainfall for main crop production without the destructive damage from the cyclones or typhoons.

Moreover, reservoirs will have enough supply of water for MY 2011/12 off-season crops, which is expected to be larger-than-expected as farmers from the Central Plain will likely respond to the anticipated policy shift to the Paddy Pledging Scheme due to the attractive prices being proposed.

Figure 2: Monthly Precipitation in Thailand

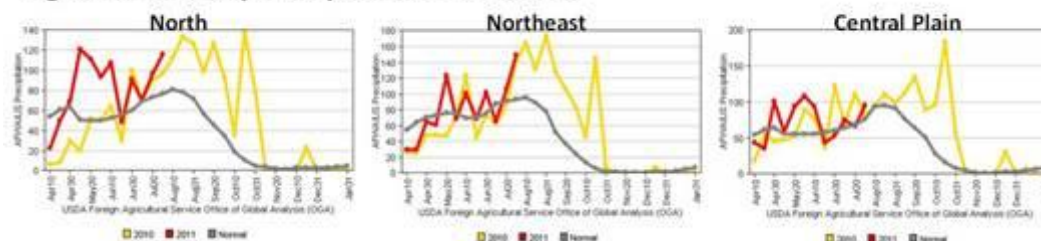
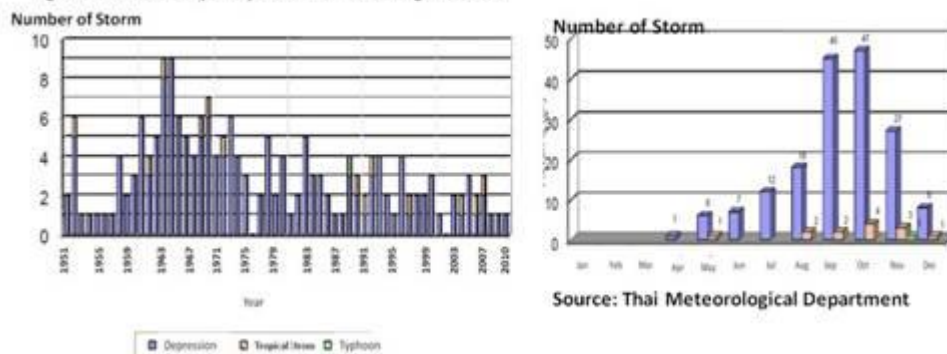


Figure 3. Number of Tropical Cyclone in Thailand during 1951-2010



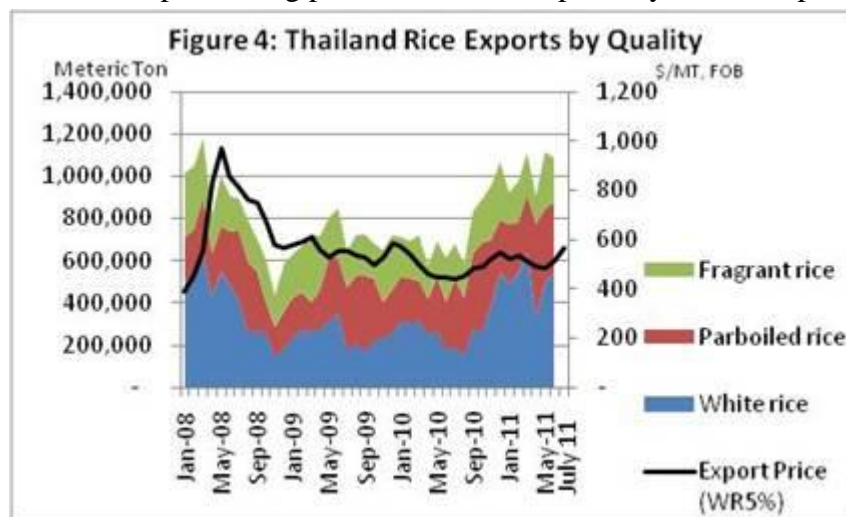
2. Exports likely to reach 10.0 million tons in 2011 but unlikely for 2012

Thai rice exports will likely increase to 10.0 million tons in 2011, up 10.5 percent from the previous year unchanged from the previous forecast (TH1035, Grain and Feed Annual), despite a surge in domestic prices driven by aggressive speculative activities of millers and traders. These speculative activities started in June 2011 when the Pheu Thai Party, who won the elections and maintained an early lead in the polls, campaigned on the platform that it would revert the rice support program to the Paddy Pledging Scheme in the lead up to the general election on July 3.

From January – July 2011, Thai rice exports totaled 7.4 million tons, up 57 percent from the previous year, driven by strong white rice exports from the government stock release (Figure 4) and these exports should continue as exporters are holding carry-over stocks of around 2.0 million tons of old-crop white rice from the 5-6 million metric tons released. From the released stocks, 2-3 million tons of white rice have been exported (1 million tons were exported in 2010), mainly to African countries. In addition, Thai parboiled rice export momentum of 300,000 tons/month will continue throughout the year as Indian parboiled rice exports remain unstable after the removal of its non-basmati export ban.

In 2012, Thai rice exports are being revised down to 7-8 million tons due to limited exportable supplies of white rice and parboiled rice, as it's expected that the new government will accumulate large quantities of intervention stocks of the MY2011/12 crop due to its aggressive Paddy Pledging Program. According to the campaign promises, the government will procure white rice at prices that are 66 percent higher than current market prices. As such, the government will likely end up with intervention stocks up to 6-7 million tons of rice for MY2011/12 crops, of which 5-6 million tons are

not expected to be released until 2013. The new Government's ability to export its rice at purchasing prices will be challenged by competitors, especially with Vietnamese white rice, unless the Government sells below purchasing prices which could possibly lead to export subsidy violations.



3. Paddy Pledging Scheme is back regardless of farmer satisfaction with the Price Insurance Program

Despite a high degree of farmer satisfaction with the current Price Insurance Program due to a more effective price-transmission mechanism, the incoming Government has stated that it will be reverting to the Paddy Pledging Program. In keeping with this campaign promise, the new Government is catering to the requests of the millers who would be the main beneficiaries from this policy shift. The details of the program have yet to be disclosed, nevertheless from what has been proposed the program will be more aggressive than MY2008/09's program when intervention prices were approximately 20 percent above market prices, resulting in a record accumulation of intervention stocks of 11.5 million tons of paddy (7.6 million tons milled equivalent) (Table 1).

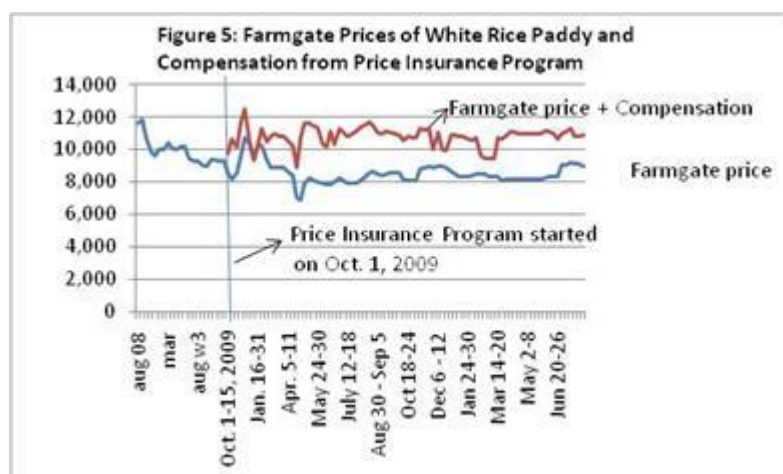
The new Government will likely revert to the Paddy Mortgage Scheme for MY2011/12 crops in November of 2011. The intervention prices proposed during the campaign are of 15,000 baht/ton (\$500/MT) for white rice paddy, and 20,000 baht/ton (\$667/MT) for fragrant rice paddy which are 66.0 percent and 33.0 percent higher than current market prices. The Government will likely hold its intervention stocks for a year and release them contingent on exports. If the previous experience is any indication, the stocks released will most probably be below market prices, which in turn will likely be much lower than the Government's purchasing prices.

Table 1: Paddy Pledging Program in the Past							
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	
						Old	Revised
Intervention Price (Baht/ton)							
Main Crop: Fragrant rice paddy	8,700 - 7,000	9,700 - 10,000	9,700 - 10,000	8,700 - 9,000	9,000 - 9,300	15,700-18,000	14,700-15,000
White rice paddy	4,700 - 5,330	6,200 - 6,800	6,700 - 7,100	5,900 - 6,500	6,100 - 6,700	12,800 - 14,000	10,800 - 12,000
Second Crop: White rice paddy	5,500 - 5,900	6,300 - 6,700	6,700 - 7,100	6,000 - 6,600	12,800 - 14,000	-	10,800 - 12,000
Paddy Pledges (ton)							
Main crop	2,838,141	5,295,237	5,291,831	1,808,318	239,481	-	8,059,312
Second crop	118,392	797,778	2,173,727	1,835,945	4,100,000	-	5,487,948
Carry-over stocks	1,716,364	5,883,233	6,754,898	3,181,818	7,281,818.18	-	11,527,260
(milled equivalent)	944,000	3,285,778	3,715,172	2,100,000	4,806,000	-	5.8 million tons
Average Farm-gate Prices (Baht/ton)							
Fragrant rice paddy	8,437	7,711	7,887	8,328	11,985	-	12,728
White rice paddy (main crop: 5% grade)	5,222	6,495	6,872	6,442	8,878	-	9,818
White rice paddy (second crop)	5,349	6,817	6,728	6,427	12,127	-	10,334
Market price before the program (Baht/ton)							
Fragrant rice paddy	7,980	7,738	7,823	8,282	8,954	-	12,728
White rice paddy (main crop: 5% grade)	4,434	5,932	6,800	6,380	8,348	-	9,843
White rice paddy (second crop)	4,822	6,588	6,849	6,484	12,388	-	10,334
Market prices after the program (Baht/ton)							
Fragrant rice paddy	9,587	7,989	8,151	8,944	15,570	-	13,078
White rice paddy (main crop: 5% grade)	5,193	6,832	6,788	6,500	8,840	-	10,392
White rice paddy (second crop)	5,340	6,580	6,880	6,340	12,000 - 13,000	-	9,005

Source: Ministry of Commerce (2002/03 - 2005/06)

About 70 percent of rice farmers will likely be worse off under the Paddy Pledging Program, as compared to the Price Insurance Program. In general, farmers participating in the Paddy Pledging Program in the past account for only one third of total rice farmers, most of them are large-scale farmers in the central plain. Meanwhile, small-scale farmers, particularly the northeastern farmers with average holdings of 10-20 rai (2-3 hectares), have limited ability to participate in the program due to liquidity and logistical concerns and will be forced to sell at market prices which are usually far below the intervention prices.

Under the Paddy Pledging Program, farmers will have to wait for a couple of weeks to redeem their sales. As for the Price Insurance Program, over 95 percent of farmers participated in the program, and were able to cash-in on their sales at market prices immediately. This gave farmers plenty of liquidity to cover their expenses while waiting for their compensation to be paid out. In fact, based on average compensation received, farmers sold their paddy (market prices + compensation) at approximately 30 percent above market prices under the Price Insurance Program during MY2009/10 – MY2010/11 (Figure 5). Whether farmers will like it or not, they will have to forego their extra income received from the old Price Insurance Scheme to millers, local paddy traders, exporters, and even those involved in the administration of the Paddy Pledging Program.



Appendix Table: Thailand's Rice Supply and Demand

Rice, Milled Thailand	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	10,940	10,940	10,700	10,667	10,860	10,860
Beginning Stocks	4,787	4,787	6,347	6,100	6,062	6,062
Milled Production	20,260	20,260	20,350	20,262	20,394	20,394
Rough Production	30,697	30,697	30,833	30,700	30,900	30,900
Milling Rate (.9999)	6,600	6,600	6,600	6,600	6,600	6,600
MY Imports	300	300	300	200	100	100
TY Imports	300	300	300	200	100	100
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	25,347	25,347	26,997	26,562	26,556	26,556
MY Exports	9,000	9,047	10,000	10,000	10,000	8,000
TY Exports	9,000	9,047	10,000	10,000	10,000	8,000
Consumption and Residual	10,000	10,200	10,200	10,500	10,700	10,700
Ending Stocks	6,347	6,100	6,797	6,062	5,856	7,856
Total Distribution	25,347	25,347	26,997	26,562	26,556	26,556
Yield (Rough)	3.	2.8059	3.	2.878	2.8453	2.8453

End of report